



RED OWL STORES, INC.



ANNUAL REPORT FOR PERIOD ENDED MARCH 2, 1963



CONTENTS

Highlights	2
Letter to shareholders and employees	3
Review of the year's operations	4
Comparison charts	4, 5
Facilities chart	8
Looking to the Future	9
Consolidated statement of operations and retained earnings—Red Owl Stores, Inc. and Consolidated Subsidiaries	10
Consolidated balance sheet— Red Owl Stores, Inc. and Consolidated Subsidiaries	11
Combined balance sheet and statement of earnings and retained earnings— Wholly-owned Realty Subsidiaries of Red Owl Stores, Inc.	12
Notes to financial statements	13, 14, 15
How the sales dollar was divided	16
Ten year record of growth	17
Accountants' Report	17
Directors and officers	FLAP

The annual stockholders' meeting will be held on June 4, 1963 at the office of the Corporation. A proxy statement and form of proxy will be mailed in May, 1963.





HIGHLIGHTS

	FISCAL YEAR ENDED		
	March 2, 1963 (52 weeks)	March 3, 1962 (53 weeks)	Percentage Increase (Decrease)
Retail sales _____	\$244,015,587	\$228,342,904	6.9%
Wholesale sales			
Agency _____	45,853,054	41,516,279	10.4%
Other _____	10,074,780	9,196,146	9.6%
Total _____	299,943,421	279,055,329	7.5%
Earnings			
Net earnings for year _____	2,652,918	2,373,603	11.8%
Reinvested in business _____	1,436,263	1,263,423	13.7%
Earned per share common* _____	1.77	1.69	4.7%
Number of common shares outstanding* _____	1,498,106	1,404,266	6.7%
Dividends per share* _____	.82½	.80	3.1%
Net working capital** _____	18,478,344	15,271,975	21.0%
Ratio of current assets to current liabilities** _____	2.23 to 1	2.14 to 1	
Book value per share common* _____	17.45	15.77	

* Adjusted for the two-for-one stock split
distribution on March 22, 1963

** Excluding wholly-owned realty subsidiaries



Ford Bell



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TO OUR SHAREHOLDERS AND EMPLOYEES:

We are pleased to report that sales and earnings for the fiscal year ended March 2, 1963 were the highest in Red Owl's history.

Net sales for the year were up 7.5% over a year ago. The increase was due to gains in all categories of operations, as well as to the addition of Snyder's sales for eleven months of the fiscal year. Particularly noteworthy was the continued progress of the Agency Division, which had an increase in volume of 10.4%.

Consolidated net earnings were \$2,652,918, amounting to \$1.77 per share, compared with \$2,373,603 or \$1.69 per share in the preceding year. This year's per share figure equalled the record set in the year ended February 27, 1960. It should be noted that the number of shares outstanding at the year-end amounted to 1,498,106, an increase of 93,840 from a year earlier, after adjusting for a two-for-one stock split. The increase in earnings was achieved despite the operating losses of the Chicago division.

The Board of Directors increased the cash dividend rate by 12.5% in the fourth quarter as a result of the improved earnings during the year. This established a rate of 90 cents per share on an annual basis. At the same time, the Board approved a two-for-one split of the common stock by a distribution on March 22, 1963 to holders of record on March 15, 1963.

Shortly after the close of the fiscal year the stores in the Chicago area were sold to National Tea Co. At last year's annual meeting shareholders were informed that Red Owl's entrance into that market had not produced the anticipated results. A careful appraisal of the situation led management to conclude that the sizable additional investment required to put the division on a profitable basis would not produce a satisfactory return in the foreseeable future. It was decided that such

funds could be better utilized to take advantage of growth opportunities in other areas, including supermarket expansion in established markets, additional Snyder's drug stores, and further diversification within the merchandising field. The terms of the sale provided for Red Owl's recovery of investment in fixtures and inventory and for subleasing all locations to the purchaser.

During the past fiscal year eight new supermarkets and one drug store were opened. A considerable number of existing retail stores were remodeled and improved to strengthen our competitive position. In addition, food processing operations were expanded and eighteen new accounts were added to the Agency Division.

Expansion plans for the year ahead call for a stepped up rate in all phases of our business. A major production and processing plant, now under construction, will be in full operation by year-end. Of special significance will be the development of a new concept known as Red Owl's Family Center, which will include food, drugs, and variety and soft goods in the same unit.

With continued improvement in our established markets and the elimination of Chicago losses, the outlook for the future is favorable at this time. Further opportunities for expansion of supermarkets, coupled with plans for new drug outlets, Family Centers, and processing plants appear to offer many interesting challenges in the years ahead. With the continued support of the shareholders and our fine organization, these years should be good ones for Red Owl.

CHAIRMAN OF THE BOARD

PRESIDENT



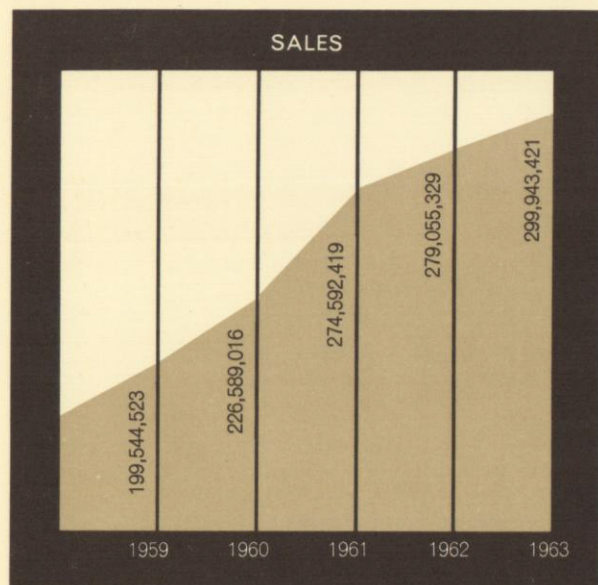
REVIEW OF THE YEAR'S OPERATIONS

The fiscal year ended March 2, 1963 included 52 weeks of operations while figures for the previous year covered 53 weeks.

Snyder's Drug Stores, Inc. was acquired April 3, 1962, and the current year's figures include its operations since that date.

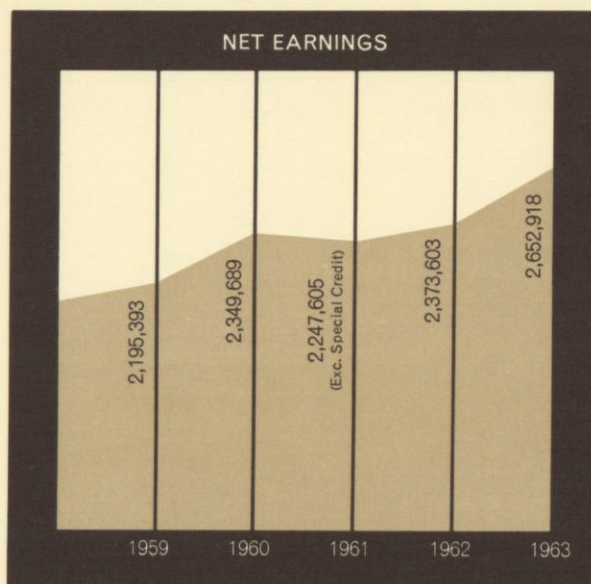
Where applicable, figures have been adjusted to reflect the two-for-one stock split, approved by the Board of Directors for distribution on March 22, 1963 to holders of record on March 15, 1963.

SALES APPROACH \$300 MILLION MARK. For the year ended March 2, 1963, net sales amounted



to \$299,943,421 compared with \$279,055,329 in the preceding year. Retail sales, including Snyder's volume, increased 6.9%. The Agency Division's sales were up 10.4% while other

wholesale sales showed an increase of 9.6%. Sales have shown a steady climb every year since 1951.

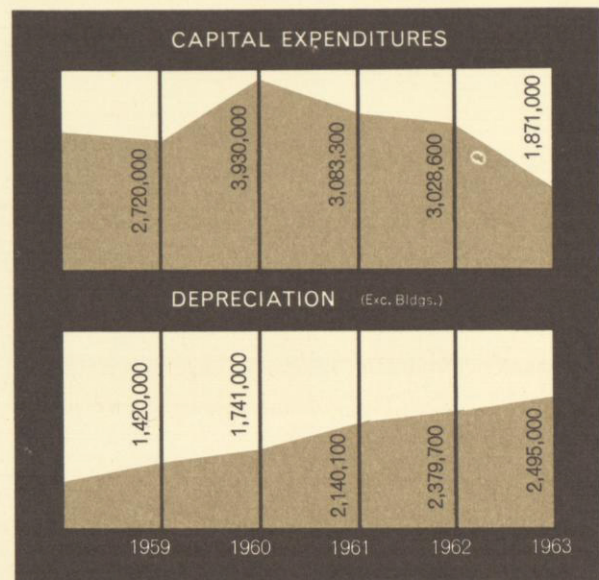
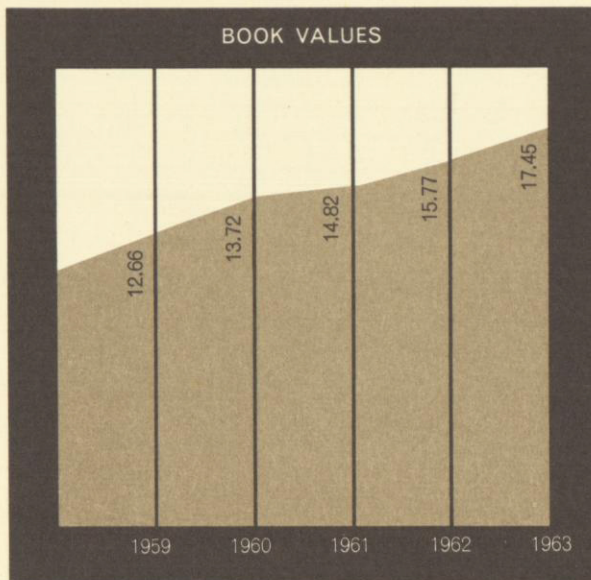
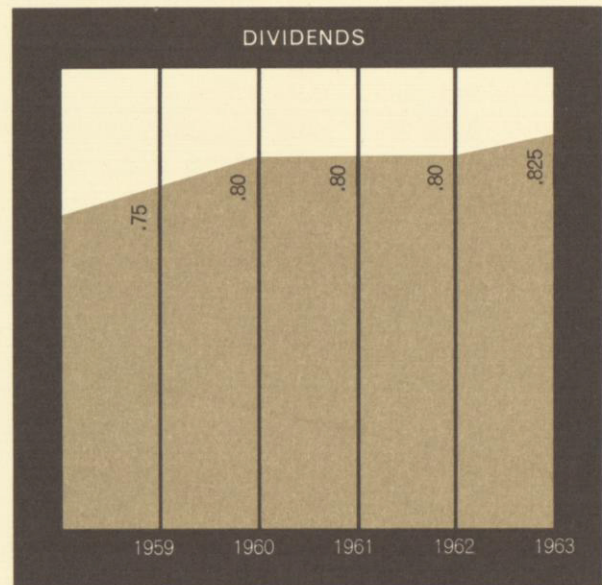
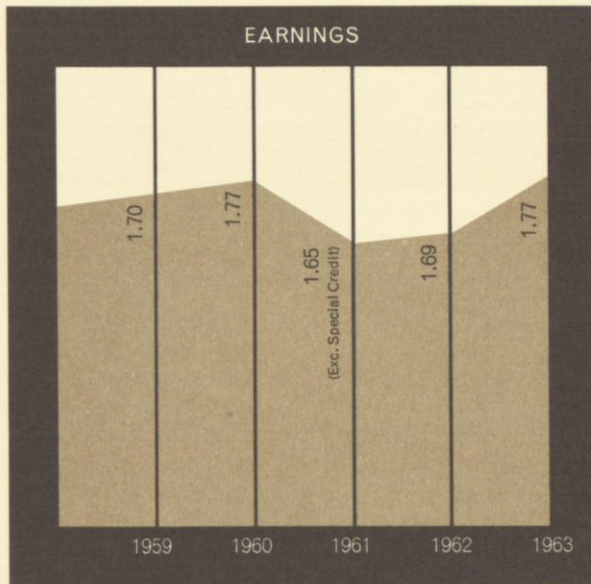


Consolidated net earnings after taxes were \$2,652,918, equal to \$1.77 per share against \$2,373,603 or \$1.69 per share for the prior year.

Shares outstanding increased to 1,498,106 from 1,404,266, up 93,840 from a year earlier. The following is a summary of changes during the year:

Shares outstanding beginning of year	1,404,266
Increases due to:	
Conversion of debentures	26,160
Options exercised	2,680
Snyder's Drug purchase	65,000
Shares outstanding end of year	1,498,106

COMPARISON OF EARNINGS, DIVIDENDS & BOOK VALUES





REVIEW OF THE YEAR'S OPERATIONS *(Continued)*

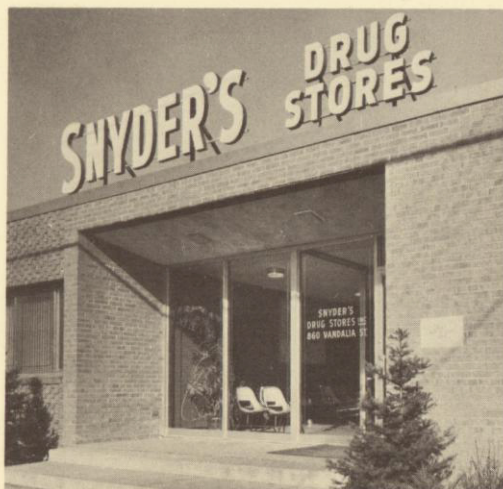
DIVIDEND RATE HIGHER. Quarterly dividends were paid at the rate of 20 cents per share in the first three quarters, and 22½ cents in the fourth quarter, making a total of 82½ cents for the fiscal year. The new rate is equal to 90 cents on an annual basis. Red Owl has paid a cash dividend on its common stock every year since 1933.

Net working capital at year-end amounted to \$18,478,344. The ratio of current assets to current liabilities was 2.23 to 1. An aggregate of \$1,871,000 was invested in fixtures, equipment and leaseholds during the year.

Wholly-owned realty subsidiaries issued \$589,000 additional first mortgage installment notes to finance the ownership of store properties leased to the parent company and another tenant.

For several years Red Owl has been part owner of the Hi-Lake Shopping Center in Minneapolis and operates a supermarket in that center. During the year it was deemed advisable to acquire full ownership of The Signal Company, the corporation which owns and operates this neighborhood center.

Red Owl and its subsidiaries now own real estate having a net book value of approximately \$8,927,530. Most of these properties are owned by subsidiaries and leased for use by the parent company. The properties are financed primarily by debt and the parent does not guarantee the obligations. Therefore, substantial residual values are being retained without extending the parent company's credit beyond the lease liability that otherwise would be involved with outsiders.



The most recently opened Snyder's facility is the Snyder's Store in Rochester (left)—opened in March, 1963. At the right you see the entrance to the Snyder's Office and Warehouse in St. Paul. Opened June 1, 1960.



Left, is an interior view of the candy and nut packaging plant, acquired during the year to provide fresh, high quality packed candy and nuts to stores. At the right is an independently owned agency outlet in Hastings, Minn.

NEW STORES OPENED; PROCESSING EXPANDED.

Supermarket expansion continued with eight new openings during the year, of which two were relocations of existing stores.

The Agency Division continued its growth with the addition of 18 supermarkets. These new locations are considerably larger than the average Red Owl agency and are generating more volume for the company. Although the total volume of the Agency Division is considerably less than the retail activities, it is increasing rapidly and produces an excellent return on invested capital.

Snyder's Drug Stores, Inc., which became a wholly-owned subsidiary in April 1962, opened one new store in the past year and initiated the development of several others for opening in 1963. The company now operates 22 self-service

type units having complete prescription and drug departments, as well as an extensive line of variety merchandise. Snyder's is headquartered in a modern office and warehouse in St. Paul, Minnesota. The company is a natural adjunct to Red Owl's operations and is making a significant contribution to per share earnings.

A packaging plant was purchased to furnish retail outlets with high quality candy and nuts. In addition to merchandising advantages, this operation is producing a good return on investment.

Radio Station KRSI, a wholly-owned subsidiary, is now operating both AM and FM stations, and has extended its broadcast schedule to full-time basis. On January 1, 1963 its services were further expanded by affiliation with the ABC network for important news and special



REVIEW OF THE YEAR'S OPERATIONS (Continued)

events coverage. Revenues have almost doubled since this facility was acquired by Red Owl and further improvement in operating results is anticipated.

Red Owl has an interest in a coin-operated dry cleaning and laundry business through an agreement with Red Robin, a small Twin City firm. Under this plan, Red Owl may construct several dry cleaning and laundry units and lease them to Red Robin. The first Red Robin unit to be financed by the company will open in May, 1963 in a Minneapolis neighborhood shopping center which also will include a Red Owl supermarket and a Snyder drug store. A second unit will open during the summer adjacent to an existing Red Owl supermarket.

INCENTIVE COMPENSATION. After considerable study of compensation methods, the Board of Directors approved a profit sharing plan for key administrative employees and store managers, effective with the new fiscal year beginning in 1963. This plan was designed within

the framework of a resolution approved by the shareholders on June 24, 1947. One of the unusual features of the plan is that it provides an incentive for making improvements in return on investment. A minimum return of 15% is required before any payment can be made with a graduated scale of profit sharing as the return on investment increases. Following shareholder authorization in 1947 profit sharing payments were in the form of cash bonuses. The present plan provides for automatic deferment of one-half the amount of profit sharing while the eligible employees have an option to take the remainder or some portion of it in cash. Management is of the opinion this plan will prove to be beneficial to the shareholders.

NEW OFFICER ELECTED. At the annual meeting in June, Mr. Merle R. Getten was elected an Assistant Vice President of the corporation. Mr. Getten is a member of the Retail Operations staff and has been with the company seventeen years.

FACILITIES	IOWA	MICH.	MINN.	MONT.	NO. DAK.	SO. DAK.	WISC.	WYO.	ILL.	COLO.	TOTAL
Corporate Stores	3	8	61	2	20	19	33	1	11	15	173
Agency and Wholesale Accounts	7	18	137		46	29	71			142	450
Drug Stores			21				1				22
Principal Warehouses			2		1		1			1	5



Above you see an artist's sketch of Red Owl's newest merchandising concept—a unique family center which will allow customers to purchase food, drugs, prescriptions and variety and soft goods under one roof.

LOOKING TO THE FUTURE. Red Owl is in an excellent position in terms of money and manpower to move ahead aggressively in expanding its business. At this time no outside financing is contemplated.

In the coming year effort will be directed towards further supermarket and drug store expansion in established markets; in continued

development of the Agency Division; and, in making additions to the company's production and processing operations.

The concept of the Red Owl Family Center (pictured in this report), combining many types of goods under one roof, offers promise of substantial potential. Plans are being prepared for several such units in the months ahead.



The Mall, a new unit at 19th & Nicollet, Minneapolis, will open this month and will contain a Red Owl Supermarket, a Snyder's Drug Store and Red Robin coin-operated laundry and dry cleaning facilities.



RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statement of Operations and Retained Earnings Year ended March 2, 1963 (with comparative figures for the previous year)

	YEAR ENDED	
	Mar. 2, 1963 (52 weeks)	Mar. 3, 1962 (53 weeks)
Net sales:		
Retail	\$244,015,587	228,342,904
Wholesale:		
Agencies	45,853,054	41,516,279
Others	10,074,780	9,196,146
	<u>299,943,421</u>	<u>279,055,329</u>
Costs and operating expenses (note 3):		
Cost of goods sold, including warehousing and transportation expenses	246,725,463	232,669,005
Selling, general and administrative and other operating expenses	47,220,422	41,077,017
	<u>293,945,885</u>	<u>273,746,022</u>
Operating earnings	5,997,536	5,309,307
Other deductions (income):		
Interest (on long-term debt (other	510,588	508,842
	7,478	9,895
Miscellaneous deductions	85,218	62,630
Gain on disposal of property and equipment—net	(53,966)	(121,217)
Miscellaneous income	(132,751)	(95,041)
	<u>416,567</u>	<u>365,109</u>
Earnings before taxes on income	5,580,969	4,944,198
Federal and State taxes on income, estimated (note 3)	3,048,000	2,663,000
Net earnings before undistributed earnings of wholly-owned realty subsidiaries	2,532,969	2,281,198
Net earnings of wholly-owned realty subsidiaries	119,949	92,405
Net earnings	<u>2,652,918</u>	<u>2,373,603</u>
Deduct dividends on Red Owl Stores, Inc. common stock— \$.82½ and \$.80 per share in respective years	1,216,655	1,110,180
	<u>1,436,263</u>	<u>1,263,423</u>
Retained earnings at beginning of year—unappropriated	13,542,356	12,278,933
Retained earnings at end of year:		
Unappropriated (notes 1 and 4)	14,978,619	13,542,356
Appropriated for possible future inventory losses	285,000	285,000
Total at end of year	<u>\$ 15,263,619</u>	<u>13,827,356</u>

See accompanying notes to financial statements.

RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheet

March 2, 1963 (with comparative figures for the previous year)

Assets	<u>Mar. 2, 1963</u>	<u>Mar. 3, 1962</u>
Current assets:		
Cash	\$ 5,273,715	5,645,137
Marketable securities, at cost plus accrued interest (approximate market)	1,493,099	994,632
Accounts and notes receivable, less allowance for doubtful receivables \$87,632	2,495,459	2,281,306
Merchandise inventories (note 2)	22,181,605	18,561,351
Prepaid expenses	1,253,846	1,141,780
Properties subsequently sold	814,116	—
Total current assets	33,511,840	28,624,206
Investments and other assets:		
Investments in and advances to wholly-owned realty subsidiaries not consolidated, at net equity value (note 1)	1,949,705	1,225,028
Miscellaneous	983,814	914,054
	2,933,519	2,139,082
Property, plant and equipment, at cost less depreciation and amortization (note 3)	12,817,983	13,525,858
Deferred charges	1,100,690	1,125,337
Radio station license and goodwill, at cost	241,013	228,335
	<u>\$50,605,045</u>	<u>45,642,818</u>
Liabilities		
Current liabilities:		
Current instalments of long-term debt	\$ 788,332	390,000
Accounts payable	8,295,993	7,786,167
Accrued expenses	4,141,089	3,582,486
Federal and State taxes on income, estimated	1,808,082	1,593,578
Total current liabilities	15,033,496	13,352,231
Deferred Federal taxes on income and investment credit (note 3)	1,420,443	1,196,338
Long-term debt, less current instalments included above (note 4)	8,003,100	8,948,000
Stockholders' equity:		
Preferred stock—par value \$100 per share. Authorized 50,000 shares; none outstanding	—	—
Common stock—no par value, stated value \$1.50 per share. Authorized 3,000,000 shares; issued and outstanding 1,498,106 shares (1,404,266 in 1962) (note 5)	2,247,159	2,106,399
Additional amounts paid in by stockholders (note 6)	8,637,228	6,212,494
Retained earnings (notes 1 and 4), per accompanying statement	15,263,619	13,827,356
	26,148,006	22,146,249
Commitments (note 7)	<u>\$50,605,045</u>	<u>45,642,818</u>

See accompanying notes to financial statements.



WHOLLY-OWNED REALTY SUBSIDIARIES OF RED OWL STORES, INC.

Combined Balance Sheet March 2, 1963 (with comparative figures for the previous year)

	Mar. 2, 1963	Mar. 3, 1962
Assets		
Cash	\$ 188,845	58,571
Accounts receivable	179,840	800
Prepaid expenses	2,505	—
Property and plant, at cost less depreciation (note 3)	8,224,533	6,652,398
Deferred debt and organization expenses	60,191	54,354
	<u>\$8,655,914</u>	<u>6,766,123</u>
Liabilities		
Current instalments of long-term debt	\$ 391,457	286,165
Accounts payable and accrued expenses	57,348	56,446
Federal and State taxes on income, estimated	45,068	70,993
Due to Red Owl Stores, Inc.	1,207,663	672,642
Deferred Federal taxes on income and investment credit (note 3)	188,331	115,848
Long-term debt, less current instalments above (note 4)	6,024,005	5,011,643
Investment of Red Owl Stores, Inc.:		
Capital stock	130,000	24,500
Additional paid-in capital	54,000	54,000
Retained earnings, per statement below	558,042	473,886
	<u>742,042</u>	<u>552,386</u>
	<u>\$8,655,914</u>	<u>6,766,123</u>

Combined Statement of Earnings and Retained Earnings Year ended March 2, 1963 (with comparative figures for the previous year)

	YEAR ENDED	
	Mar. 2, 1963	Mar. 3, 1962
Revenue and other income:		
Rents from Red Owl Stores, Inc.	\$ 787,883	660,053
Rents from others and miscellaneous	42,755	5
	<u>830,638</u>	<u>660,058</u>
Expenses and other deductions:		
Depreciation and amortization	250,368	181,488
Interest	290,551	249,754
Amortization of debt expense	8,147	8,709
Miscellaneous	49,623	25,872
	<u>598,689</u>	<u>465,823</u>
Earnings before taxes on income	231,949	194,235
Federal and State taxes on income, estimated (note 3)	112,000	101,830
Net earnings	119,949	92,405
Retained earnings at beginning of year	473,886	381,481
Accumulated loss of subsidiary at date acquired	(35,793)	—
Retained earnings at end of year	<u>\$ 558,042</u>	<u>473,886</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS Year ended March 2, 1963

NOTE 1. *The accompanying consolidated financial statements* include the accounts of Red Owl Stores, Inc. and all active subsidiaries except seven wholly-owned realty subsidiaries (one acquired and one organized during the year) for which combined financial statements are included in this report. As of April 3, 1962, the Company acquired all the outstanding common capital stock of Snyder's Drug Stores, Inc. in exchange for 65,000 shares (as adjusted for stock split) of common stock. Operations and transactions of the Snyder companies are included in the consolidated financial statements from date of acquisition.

Investments in and advances to the unconsolidated wholly-owned realty subsidiaries are stated in the consolidated balance sheet at the Company's equity in the net assets of such subsidiaries. Consolidated retained earnings include their net undistributed earnings from dates of organization or acquisition.

NOTE 2. *Merchandise inventories* of dry groceries in retail stores are valued at the lower of cost or market determined by the retail inventory method; merchandise inventories in drug stores were valued at lower of cost or market at December 29, 1962 and have been adjusted for transactions to March 2, 1963 on the basis of gross profit percentages; warehouse and other inventories are valued at the lower of cost (first-in, first-out) or replacement market. Details of merchandise inventories are as follows:

	1963	1962
Retail stores	\$ 8,729,799	6,719,767
Warehouses	12,391,008	10,759,928
Other and in transit	1,060,798	1,081,656
	<u>\$22,181,605</u>	<u>18,561,351</u>

NOTE 3. *Property, plant and equipment*, at cost less depreciation and amortization, and related depreciation and investment credit policy are summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
Land	\$ 395,472	1,268,620
Buildings	716,641	7,297,574
Buildings on leased land	—	505,534
Furniture, fixtures and equipment	18,182,389	345,295
Automotive equipment	3,372,520	—
	<u>22,667,022</u>	<u>9,417,023</u>
Less depreciation and amortization	11,812,764	1,193,368
	<u>10,854,258</u>	<u>8,223,655</u>
Leasehold improvements, at cost less amortization	1,834,271	—
Construction in progress and store properties held for sale	129,454	878
	<u>\$12,817,983</u>	<u>8,224,533</u>

Depreciation and amortization charges included in costs and expenses of Red Owl Stores, Inc. and consolidated subsidiaries amount to \$2,536,780 in 1963 and \$2,412,793 in 1962. Depreciation charges against earnings have been computed by the straight-line method; for income tax purposes, however, depreciation on certain buildings and on fixtures and equipment acquired since 1954 has been computed by accelerated methods. Provision has been made for deferred income taxes applicable to the excess of depreciation claimed for tax purposes over amounts charged against earnings. Portions of deferred income taxes will be used to reduce provisions for Federal income taxes in future years when depreciation charges against earnings exceed amounts deductible for tax purposes.

The investment credit under the Revenue Act of 1962, \$88,803 for Red Owl Stores, Inc. and consolidated subsidiaries and \$24,171 for wholly-owned realty subsidiaries, has been recorded



NOTES TO FINANCIAL STATEMENTS (Continued)

as a reduction of current Federal income taxes payable and as an increase in deferred Federal taxes on income and investment credit. The effect of the credit on earnings, which is not material in 1963, is being recognized as a reduction in the provision for Federal taxes on income ratably over the estimated lives of the related qualified property.

NOTE 4. *Long-term debt*, less instalments due within one year and cash held by trustee for current redemptions, and related restrictions are summarized as follows:

	RED OWL STORES, INC. AND CONSOLIDATED SUBSIDIARIES	WHOLLY-OWNED REALTY SUBSIDIARIES
3 $\frac{7}{8}$ % notes due July 1, 1966	\$ 840,000	—
5 $\frac{1}{2}$ % notes due October 1, 1972	2,550,000	—
5 $\frac{3}{4}$ % note due January 1, 1975	3,675,000	—
4 $\frac{3}{4}$ % convertible subordinated debentures due February 1, 1978	732,000	—
Miscellaneous debt of subsidiary	206,100	—
6 $\frac{1}{4}$ % mortgage note due October 15, 1975	—	277,368
5 $\frac{1}{2}$ % mortgage note due September 10, 1977	—	551,955
5 $\frac{1}{2}$ % mortgage note due December 1, 1978	—	332,431
5 $\frac{3}{4}$ % mortgage notes due September 1, 1980	—	851,465
5 $\frac{3}{4}$ % mortgage note due August 1, 1981	—	179,115
5 $\frac{3}{4}$ % mortgage note due December 1, 1981	—	381,774
5 $\frac{3}{4}$ % mortgage note due June 1, 1982	—	190,135
5 $\frac{3}{4}$ % mortgage note due March 1, 1983	—	158,509
Sinking fund mortgage bonds:		
4% due June 1, 1969, Series A	—	350,000
4 $\frac{1}{4}$ % due March 1, 1970, Series B	—	194,500
4 $\frac{1}{2}$ % due December 1, 1975, Series C	—	1,181,500
4 $\frac{3}{4}$ % due December 1, 1977, Series D	—	495,625
4 $\frac{3}{4}$ % due December 1, 1982, Series E	—	691,500
Equipment purchase contract due March 23, 1967	—	188,128
	<u>\$ 8,003,100</u>	<u>6,024,005</u>

Aggregate annual maturities and sinking fund requirements in the five fiscal years subsequent to February 29, 1964 for Red Owl Stores, Inc. and consolidated subsidiaries and wholly-owned realty subsidiaries, respectively, are as follows: 1965, \$765,000 and \$403,764; 1966, \$745,000 and \$414,584; 1967, \$695,000 and \$423,947; 1968, \$685,000 and \$368,741; 1969, \$685,000 and \$367,287.

The 6 $\frac{1}{4}$ % and 5 $\frac{3}{4}$ % mortgage notes and sinking fund mortgage bonds are variously secured by the Company's principal warehouse property, certain store properties and the wholly-owned realty subsidiaries' interests in related long-term leases to the Company. The 4 $\frac{3}{4}$ % subordinated debentures are convertible into shares of the Company's common stock at \$16 $\frac{2}{3}$ per share, subject to adjustment under certain conditions.

Restrictions on payment of dividends (except stock dividends) and purchase redemption or retirement of capital stock are imposed by the terms of agreements relating to the Company's 3 $\frac{7}{8}$ % notes, 5 $\frac{1}{2}$ % notes, 5 $\frac{3}{4}$ % note and 4 $\frac{3}{4}$ % debentures. Retained earnings at March 2, 1963 free from restrictions, based on working capital and retained earnings requirements under the most restrictive of the agreements, amount to approximately \$2,646,000.

NOTE 5. *Authorized common stock* was increased during the year from 2,000,000 to 3,000,000 shares, the stated value was decreased from \$3 to \$1.50 per share, and a two for one split of outstanding common stock was authorized effective March 22, 1963. All shares and per share figures in the accompanying financial statements, notes and elsewhere in the annual report are stated after adjustment for the stock split.

Of the authorized common stock, 43,920 shares are reserved for issuance upon conversion of the 4¼% subordinated debentures, 44,710 shares are reserved for issuance upon exercise of options granted under the Employees' Stock Option Plan and 39,380 shares, after additional authorization of 50,000 shares during the year, remain available for granting of future options.

Options are granted at not less than 95% of market value at dates granted and become exercisable over a period of five years commencing one year after dates granted. All options expire, subject to earlier expiration in the event of termination of employment, if not exercised within six years of dates granted. Changes during fiscal year 1963 in stock options held by certain executive employees are summarized as follows:

	OPTIONS GRANTED		OPTIONS EXERCISABLE	
	Shares	Amount	Shares	Amount
Balance at beginning of year	30,640	\$ 694,047	12,120	\$ 261,377
Granted or became exercisable	17,950	363,488	7,450	159,093
Exercised	(2,680)	(48,305)	(2,680)	(48,305)
Cancelled	(1,200)	(30,475)	(120)	(2,700)
Balance at end of year	44,710	978,755	16,770	369,465

Outstanding options have been granted at prices ranging from \$17.50 to \$31.25 per share (\$20.25 in 1963); at dates of grant, shares under option had an aggregate market value of \$1,014,131, an average of \$22.68 per share.

NOTE 6. *Additional amounts paid in by stockholders* during the year aggregate \$2,424,734 as follows: excess of amounts paid in over stated value of 2,680 shares of common stock issued upon exercise of employees stock options, \$44,285; excess of market value over stated value of 65,000 shares of common stock issued in exchange for capital stock of Snyder's Drug Stores, Inc., \$2,009,651, less related issuance expenses, \$16,390; excess of conversion price over stated value of 26,160 shares of common stock issued on conversion of 4¼% subordinated debentures, \$396,760, less applicable portion of unamortized debenture issuance expenses, \$9,572.

NOTE 7. *Long-term leases*, excluding leases to the Company by its wholly-owned realty subsidiaries expiring more than three years after March 2, 1963, establish minimum annual rentals on 180 stores and three warehouses. The approximate minimum annual rentals under such leases, excluding taxes, insurance and maintenance costs payable by the Company, amount to \$3,257,000. Of this amount, leases with minimum annual rentals of \$510,000 expire in fiscal years 1967 through 1971 and leases with minimum annual rentals of \$2,747,000 have terms extending into fiscal years 1972 through 1983.

The Company leases its principal warehouse and home office from one of its wholly-owned realty subsidiaries for an initial period of thirty years at a present minimum annual rental of \$388,000. Approximate minimum annual rentals on 12 store properties leased or to be leased from wholly-owned realty subsidiaries aggregate \$350,000.

Included in the foregoing figures are minimum annual rentals, under leases expiring in 1977 through 1982, of \$221,970 and \$169,809 respectively, on seven store properties leased from outside interests and on four store properties leased from wholly-owned realty subsidiaries which were sub-let subsequent to the year-end in connection with the sale of Chicago store assets.

In addition, the Company has entered into agreements to lease store properties at new locations for initial periods of fifteen to twenty years at minimum annual rentals which will aggregate approximately \$198,000.

Other commitments:

The Company guarantees payment of minimum annual rentals aggregating \$41,000 under the terms of long-term lease agreements entered into by certain agency store owners.

The Company's unfunded liability for past service benefits under the terms of a noncontributory salaried employees pension plan, adopted November 12, 1959, amounts to approximately \$2,060,000 at March 2, 1963.

**HOW
THE
SALES
DOLLAR
WAS
DIVIDED**

86.8¢

for
merchandise,
transportation,
handling
costs

10.4¢

for wages,
salaries,
employee
benefits

1.0¢

for
income
taxes

.9¢

for
depreciation
of buildings
and
equipment

.4¢

to
stockholders

.5¢

reinvested
in future
growth of
company





DIRECTORS

JAMES R. ARNEILL, M.D., Executive Director and Chief Surgeon of Arneill Medical and Dental Center, Denver, Colorado

FORD BELL, Chairman of the Board of Directors, and Chief Executive Officer, Red Owl Stores, Inc.

ALF L. BERGERUD, President, Red Owl Stores, Inc.

MERRILL M. COHEN, President, J. M. Dain & Co., Inc. of Minneapolis

JOHN C. CORNELIUS, Senior Consultant and Director, Batten, Barton, Durstine & Osborn, Inc.

GLENN R. GRIFE, Red Owl Stores, Inc.

GOODRICH LOWRY, President, Northwest Bancorporation of Minneapolis

PIERCE H. McDOWELL, President, Howalt-McDowell, Inc., Sioux Falls, South Dakota

DONALD G. McNEELY, Vice President, St. Paul Terminal Warehouse Company of St. Paul

ERLING RICE, Vice President, Red Owl Stores, Inc.

LAWRENCE W. RIXE, Vice President, Red Owl Stores, Inc.

OFFICERS

FORD BELL, Chairman of the Board of Directors and Chief Executive Officer

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WILLIAM J. QUINN, Vice President, Merchandising and Procurement

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JAMES A. WATSON, Vice President, Retail Operations

VERNON J. WINTER, Vice President, Warehousing, Transportation, Manufacturing and Wholesale

JOSEPH T. SYDNESS, Secretary

THOMAS R. PELLETT, Treasurer

F. D. SCOTT, Controller

MERLE R. GETTEN, Assistant Vice President, Retail Operations and Personnel

CLAYTON C. RADUE, Assistant Vice President, Retail Operations

NEIL A. RILEY, Assistant Vice President, Real Estate and Public Relations

FRANK L. WALKER, Assistant Vice President, Agency Division

ALVIN L. NORDSTROM, Assistant Secretary, Retail Operations Research and Controls

For more information about the activities and policies of Red Owl Stores, write to . . .

RED OWL STORES, INC., HOPKINS, MINN.

Executive Offices: 215 E. Excelsior Avenue, Hopkins, Minn.
Mailing Address: Post Office Box 329, Minneapolis 40, Minn.

Stock Transfer Agents:

*Northwestern National Bank of Minneapolis
Bankers Trust Company of New York*

Registrars:

*First National Bank of Minneapolis
Morgan Guaranty Trust Company of New York*

Auditors: *Peat, Marwick, Mitchell & Co.*

TEN YEAR RECORD OF GROWTH

FISCAL YEAR ENDED IN	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
<i>(000's omitted)</i>										
Sales Retail	\$244,016	\$228,343	\$222,647	\$187,957	\$165,662	\$144,891	\$124,293	\$ 95,074	\$ 80,801	\$ 77,064
Wholesale	55,927	50,712	51,945	38,632	33,882	31,539	30,249	28,679	31,378	29,723
Total Sales	299,943	279,055	274,592	226,589	199,544	176,430	154,542	123,753	112,179	106,787
<i>(000's omitted)</i>										
Net earnings for year	2,653	2,374	2,248*	2,350	2,195	2,064	1,852	1,235	972	680
Dividends paid on Preferred Stock	—	—	—	—	—	—	83	112	21	24
Net earnings applicable to common equity	2,653	2,374	2,248*	2,350	2,195	2,064	1,769	1,123	951	656
Dividends paid on common stock	1,217	1,110	1,078	1,048	936	854	664	598	507	459
Net earnings for year retained in business	1,436	1,263	1,170*	1,302	1,259	1,210	1,105	525	309	197
Net earnings per share common	1.77	1.69	1.65*	1.77	1.70	1.69	1.57	1.09	.98	.71
Dividends per share common	.82½	.80	.80	.80	.75	.70	.62½	.60	.52½	.50
Net Working Capital** <i>(000's omitted)</i>	18,478	15,272	13,468	12,720	12,921	12,866	8,424	8,369	8,055	6,422
Ratio of current assets to current liabilities**	2.23 to 1	2.14 to 1	2.12 to 1	1.98 to 1	2.25 to 1	2.37 to 1	2.06 to 1	2.24 to 1	2.48 to 1	2.26 to 1
Stockholders' Equity <i>(000's omitted)</i>	26,148	22,146	20,214	18,247	16,351	13,986	12,738	11,604	11,078	8,311
Shares outstanding—Preferred	—	—	—	—	—	—	9,500	18,850	25,000	4,934
Common	1,498,106	1,404,266	1,363,732	1,330,232	1,291,992	1,221,782	1,123,722	1,027,802	966,302	919,180
Book value per share common	17.45	15.77	14.82	13.72	12.66	11.45	10.45	9.37	8.73	8.47
Number of common shareholders	4,182	4,078	4,183	4,290	3,827	3,228	2,389	2,291	2,161	1,998
Number of food stores at close of year										
Retail	173	172	166	163	148	152	146	143	145	151
Agency and wholesale	450	426	423	439	354	376	419	504	556	551
Average sales per retail food store	1,341,000	1,328,000	1,341,000	1,260,000	1,119,000	953,000	851,000	665,000	557,000	510,000
Number of employees (including part time)	7,700	7,400	7,000	6,100	5,600	5,300	4,600	3,900	3,400	3,300

*Excluding a special credit of \$294,000 in 1961.

**Red Owl Stores, Inc. and consolidated subsidiaries excluding wholly-owned realty subsidiaries.

NOTE: Comparative figures have been adjusted, where applicable for the two-for-one stock distribution on March 22, 1963 to holders of record on March 15, 1963.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

NORTHWESTERN BANK BUILDING

MINNEAPOLIS 2, MINN.

THE BOARD OF DIRECTORS AND SHAREHOLDERS RED OWL STORES, INC.:

We have examined the consolidated balance sheet of Red Owl Stores, Inc. and consolidated subsidiaries and the combined balance sheet of wholly-owned realty subsidiaries of Red Owl Stores, Inc. as of March 2, 1963, and the related statements of operations, earnings and retained earnings for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of operations, earnings and retained earnings present fairly the consolidated financial position of Red Owl Stores, Inc. and consolidated subsidiaries and the combined financial position of wholly-owned realty subsidiaries of Red Owl Stores, Inc. at March 2, 1963, and the results of the related operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Minneapolis, Minnesota
April 19, 1963

Peat, Marwick, Mitchell & Co.

